

phones have self-diagnostic, credit card and phone card reading capabilities and the ability to transmit billing and operating information to a central office. As of June 30, 1999 approximately 3,000 of our 19,400 pay phones have been replaced with "intelligent" phones. We are currently developing plans to replace the remaining "non-intelligent" phones.

LONG DISTANCE SERVICES

OVERVIEW

Long distance services consist primarily of direct long distance dialing, operator-assisted, calling card, and toll private lines services within Puerto Rico. We also provide wide area telephone services, toll-free services and enhanced toll-free services.

For regulatory purposes, the FCC has organized the United States into geographic markets known as local access transport areas. Puerto Rico has the status of a single local access transport area and, as such there

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is no inter-local-access transport area telecommunications traffic within Puerto Rico. Therefore, in the Puerto Rico telecommunications market, there are two types of long distance service: on-island and off-island.

Until February 1, 1999, we were prohibited from offering off-island long distance service by a non-compete agreement with Telefonica Larga Distancia. An agreement between the Puerto Rico Telephone Authority and Telefonica Larga Distancia to terminate their mutual non-competition covenants became effective on February 1, 1999. Because of competition in the on-island long distance market and the introduction of dialing parity on February 1, 1999 for competing long distance companies, we have experienced a decrease in our market share of the on-island long distance business. However, we have entered the off-island long distance market and obtained 5% of that market for the month of June. We expect to experience a further decrease in our on-island long distance market share and an increase in our off-island market share in the future. We, along with our competitors, reduced our on-island long distance rates on February 1, 1999. We expect this price reduction to increase total minutes of use. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Recent Developments."

ON-ISLAND LONG DISTANCE SERVICES

The Puerto Rico on-island long distance market had approximately 1.7 billion minutes of use in 1998. The following chart shows our minutes of use in the on-island long distance market for the years ended December 31, 1996 through 1998 and the six-month period ended June 30, 1999:

<TABLE>
<CAPTION>

	SIX-MONTH PERIOD ENDED JUNE 30, 1999	YEAR ENDED 1998	1997
<S>	<C>	<C>	<C>
On-island Minutes (millions) (1).....	725	1,670	1
Percent Increase (Decrease).....	(14%)	1.3%	
Average Revenue per Minute.....	\$.15	\$.13	\$

</TABLE>

(1) Consists of on-island long distance, direct dialing and operator services.

The on-island long distance market has been open to competition since September 1996. We held a 98% market share as of December 31, 1998, largely because the selection of an alternate carrier required dialing 5 additional digits when making a call. Competition has increased since February 1, 1999, when dialing parity was introduced to give equal access to all competitors, as mandated by the FCC and the Telecommunications Board. For the month ended June 30, 1999, our market share was approximately 63%.

The procedure used when dialing parity was introduced involved a customer mailing. Customers were advised of the right to change along with a list of carriers and how to contact them. Customers remain by default with Puerto Rico Telephone Company for on-island long distance service unless they elect to change to an alternate carrier. Our primary competitors in the on-island long distance market include AT&T, Centennial, MCI Worldcom, Sprint and Telefonica Larga Distancia. We offer per-minute charges of \$.12 during peak hours and \$.10 for off-peak hours. Our on-island long distance rates are competitive with those offered by other carriers. Our competitors have been actively advertising their service and rates.

OFF-ISLAND LONG DISTANCE

We entered the off-island market in February 1999, thereby making us the only telecommunications provider in Puerto Rico that currently offers customers a complete range of services. The off-island long distance market had approximately 1.173 billion minutes of use in 1998. We believe that entry into this service area provides us with a significant competitive advantage, allowing us to enhance other service offerings and in particular our on-island long distance service. We are currently reselling AT&T long distance service, which we purchase at a discount, and will evaluate using our own facilities after obtaining the appropriate regulatory approvals and licenses and when commercially viable. We estimate we acquired 145,100 customers that accounted for a 5% market share of the off-island long distance minutes of use for the month ended June 30, 1999.

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Our primary competitors in the off-island long distance market include AT&T, MCI Worldcom, Sprint and Telefonica Larga Distancia. We offer per minute charges of \$.12 during peak hours, plus a monthly charge of \$3 if monthly usage is less than \$25.00 and \$.10 for off-peak hours. Our off-island long distance rates are competitive with those offered by other carriers.

WIRELESS SERVICES

We offer analog and digital wireless cellular and numeric and alphanumeric paging services island-wide through Celulares Telefonica.

CELLULAR SERVICES

Cellular penetration in Puerto Rico was 10% at December 1997 and increased to 15% at December 1998, as compared to 25.5% in the United States. We believe this represents an opportunity for faster growth than in the mainland United States.

The following chart compares penetration in the United States (50 states) and Puerto Rico:

COMPARISON OF WIRELESS PENETRATION AS OF DECEMBER 31, 1998

<TABLE>
<CAPTION>

COUNTRY	POPS (000)	GDP/CAPITA	SUBSCRIBE (000)
---------	---------------	------------	--------------------

<S>	<C>	<C>	<C>
United States (50 states).....	270,933	\$32,042	69,209
Puerto Rico.....	3,844	\$14,092	567

</TABLE>

Sources: CTIA 1998, Bureau of Economic Analysis and Banco Popular

Wireless telephony has experienced significant market acceptance in Puerto Rico, with compound industry-wide annual customer growth of 44% from 1992 to 1998. Celulares Telefonica offers island-wide coverage. We hold an estimated 35% of the wireless telephony market. The distribution of Celulares Telefonica's customer base is approximately two-thirds individual accounts and one-third corporate and group accounts. Celulares Telefonica's minutes of use per customer per month averaged 125 to 150 in 1998, and monthly average revenue per unit was \$49 for 1998. This compares to mainland U.S. averages of 100-125 minutes per customer per month and average revenue per unit of \$43. The significant decrease in average revenue per unit from \$71 in 1996 to \$49 in 1998 reflects the entrance of another competitor and the increasing penetration of lower-end users, in particular prepaid customers in late 1997 and 1998.

The following chart shows wireless telephony in Puerto Rico, as well as market share and subscribers for Celulares Telefonica and its two principal competitors:

WIRELESS TELEPHONE SUBSCRIBERS

<TABLE>
<CAPTION>

	AS OF JUNE 30, 1999	AS OF 1998
	(IN THOUSANDS, EXCEPT F	
<S>	<C>	<C>
CELLULAR PENETRATION		
Market POPs.....	3,888	3,844
Market Subscribers.....	721	567
Subscriber Growth.....	27%	53%
Market Penetration.....	19%	15%
SUBSCRIBERS		
Celulares Telefonica(1).....	254	204
CellularOne.....	348	286
Centennial PCS.....	119	77
Total.....	721	567

</TABLE>

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<TABLE>
<CAPTION>

	AS OF JUNE 30, 1999	AS OF 1998
	(IN THOUSANDS, EXCEPT F	
<S>	<C>	<C>
MARKET SHARE (ESTIMATED)		
Celulares Telefonica.....	35%	36%
CellularOne.....	48%	50%

Centennial PCS.....	17%	14%
	-----	-----
Total.....	100%	100%

</TABLE>

- - - - -

(1) 1996 amounts were Restated to remove 10 reseller subscribers.

Our cellular service was launched in 1986 under the Celulares Telefonica brand. The A block service was launched in 1991 by Cellular Communication of Puerto Rico under the CellularOne brand name. SBC and Telmex recently announced their agreement to acquire Cellular Communication of Puerto Rico subject to obtaining regulatory approval. Two of three license holders of the 30-megahertz island-wide spectrum have launched digital service. Centennial PCS launched a CDMA service in 1996 whereas AT&T launched a time division multiple access service under the Sun Com brand in June 1999. ClearComm, the other license holder, has announced that it will launch its service in a joint venture with Telefonica Larga Distancia.

Celulares Telefonica and CellularOne have been migrating customers to our time division multiple access digital networks in recent years. We also hold two 10-megahertz personal communications service licenses which have not been developed; one for San Juan and the other for the remainder of the island. After the acquisition, the new management team determined that the license for the rest of the island would likely not be developed and wrote-off the value of the carrying cost. Other winners of the 10-megahertz license are Sprint with an island-wide license, Omnipoint with a license for San Juan, and Pegasus with a license for the remainder of the island.

We experienced very high turnover in 1996 and through the first half of 1997, due to a high incidence of fraud on the network. Monthly turnover averaged 6.4%, 5.5%, and 3.8% from 1996 through 1998, respectively. This resulted from terminations relating to network fraud, the inability to roam in the continental United States and the better performance of CellularOne's and Centennial's digital networks in reducing fraud.

We have taken various steps to overcome poor customer perception. In 1997, we began performing more aggressive collection procedures and implemented authentication-fingerprinting software to reduce fraud substantially. Approximately 40% of Celulares Telefonica's customer base has now switched to digital service, which further reduces fraud problems. This transition is being pursued to distance us from the poor image of our analog service and to provide service comparable in network quality and features to that of our competitors.

We have been restoring roaming service to the mainland U.S. While lacking nationwide coverage, Celulares Telefonica's customers can roam in major Puerto Rico population centers in the Northeast, Florida, Washington, D.C., and Chicago, as well as other major cities in the United States, Mexico and Canada. Our GTE affiliation will enable us to obtain additional roaming agreements.

We also have expanded penetration in the low-end user market by offering prepaid packages. Since introducing prepaid wireless services in late 1997, our prepaid customer base has grown to 77,000 as of June 30, 1999.

PAGING SERVICES

We are the market leader in Puerto Rico in paging services. Our facility-based service has been marketed under the Celulares Telefonica brand since 1994. Major competitors include Celpage, CellularOne and Skytel. The paging market and Celulares Telefonica realized significant customer growth in 1997. We experienced a contraction in customers in 1998 because of high disconnections associated with aggressive collection efforts. Our alphanumeric service is priced at levels approaching low-end cellular prepaid plans, consequently we are experiencing migration to the cellular prepaid cellular

plans resulting in a contraction in customers in 1999.

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PAGING SUBSCRIBERS

<TABLE>
<CAPTION>

	AS OF JUNE 30, 1999	AS OF DE 1998	DE 1
	<C>	<C>	<C>
<S>			
Market POPs (in thousands).....	3,888	3,844	3
Celulares Telefonica Total Subscribers (in thousands).....	204	219	
Celulares Telefonica Subscriber Growth.....	(7)%	(7)%	
Celulares Telefonica Revenues (millions).....	\$24	\$60	
Celulares Telefonica average revenue per unit per month.....	\$20	\$22	
</TABLE>			

SALES AND DISTRIBUTION

We actively market our wireless services and products through various distribution channels. Our distribution network consists of:

- a direct sales force composed of 74 retail sales representatives and 19 corporate sales representatives;
- an indirect sales force composed of 108 independent distributors that operate a total of 207 distribution outlets; and
- other sales through primary distribution channels that are supplemented by sales through our regional stores.

Our distribution network, with its multiple direct and indirect points of sale, is intended to make the purchase of cellular telephone service and equipment simple and convenient for existing and potential customers and to enhance our flexibility in meeting the needs of subscribers in varying localities and with diverse schedules. We continually seek to strengthen the reach and quality of our distribution network in order to acquire additional high quality customers.

Direct Sales. We distribute our services and products through 74 retail sales representatives who are based out of our 12 regional stores. In addition, 19 corporate sales representatives and 39 customer care coordinators handle small, medium and large businesses. These personnel are dedicated to targeting and developing corporate and government accounts.

Independent Distributors. Our distribution network includes as of June 30, 1999, 108 independent distributors for telephony services that operate 207 distribution outlets. The distributors are managed by a company-employed distribution sales manager, who serves as the distributors' liaison with Celulares Telefonica. The manager assists the distributors with training and sales related functions, including the development of promotional material.

Other Sales and Marketing. We conduct co-marketing campaigns with other consumer services and products providers, including non-profit associations and professional trade associations as well as local banks such as Banco Popular. These providers include sales information about our services and products in their sales literature and other communications with their customers. We also distribute our services and products through kiosks located in shopping centers,

exhibitions and professional conventions.

DIRECTORY

Directory revenue of approximately \$40 million in 1998 was derived from three primary sources: publishing, electronic yellow pages, and customer listings. Directory revenues for the period ended June 30, 1999 were approximately \$20 million. In 1998, we earned \$26 million in publishing rights from the sale of yellow page advertising according to the terms of a revenue sharing arrangement with VNU World Directories. This agreement expires with the publishing of the 1999 directory.

In 1999, we entered into a new 95-year agreement with AXESA Puerto Rico Incorporado, a partnership formed among various entities, including subsidiaries of Puerto Rico Telephone Company and GTE Corporation. Under the terms of the agreement which will become operative with the publishing of the 2000 directory, the percentage of income we will receive for publishing rights from the sale of yellow page

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advertising will decrease from 53% to an estimated 44%, based on a 35% share of gross yellow page revenues, additional income from the billing and collection for directory advertisements, and from the provision of Puerto Rico Telephone Company's subscriber list. AXESA has entered into an advisory agreement with GTE Directories Corporation and an affiliate of VNU pursuant to which AXESA will pay a fee equal to 2% of the gross revenues to GTE Directories Corporation and the VNU affiliate.

In addition, customers are charged \$5 per month to add and \$2.50 to remove a listing from the white pages. We derived \$11 million in revenues from these charges. This category also includes \$3 million of revenue from directory assistance service.

OTHER REVENUES

This category primarily includes revenues from the sale of private branch exchange and cellular equipment and revenues from billing and collection services provided to off-island long distance carriers.

BILLING AND COLLECTIONS

We bill and collect on behalf of most off-island long distance carriers, including AT&T, MCI Worldcom, Sprint and Telefonica Larga Distancia, with AT&T representing 50% of the revenue volume. These companies may eventually discontinue using our services and establish their own billing and collection capability. However, AT&T agreed in 1999 to extend its contract with us through 2001. The remaining billing and collection arrangements are generally short-term.

NETWORK INFRASTRUCTURE

We invested approximately \$1.7 billion from 1994 to 1998 to expand and enhance our wireline and wireless telecommunications networks. We expect to spend \$1.2 billion under our five-year capital expenditure plan for the years 1999 through 2003 through internally generated funds, and have publicly committed to spend at least \$1 billion on capital expenditures during the same five-year period.

WIRELINE NETWORK

Our switching and transmission network is 100% digital, consisting of 29 local host offices and two access tandems to ensure redundancy and network reliability for long distance calling within Puerto Rico. Our network has the

following characteristics:

- Approximately 75% of our transmission circuits in the island use fiber optic systems; the fiber optic portion of the network consists of 73,000 miles of fiber optic cable in fiber-ring and point-to-point configurations.
- The entire transmission network for the San Juan Metropolitan Area is constructed using self-healing SONET rings operating at bandwidths up to OC-48 and offering high levels of redundancy and reliability to Puerto Rico Telephone Company business and residential customers. Puerto Rico Telephone Company has also extended fiber optic cable to over 200 office buildings in the San Juan Metropolitan Area.
- Approximately 39% of the outside cable network serving the local loop is underground. The outside plant modernization program has been directed at burying cable wherever economically feasible to improve network reliability, reduce maintenance expenses and reduce exposure to tropical storms.
- Our switching network and transmissions systems are monitored by a Network Monitoring Center provided by Bellcore, which operates 24 hours per day.

We offer enhanced services including data networking and specialized application services. Data networking services include the provision of high speed broadband services such as Integrated Services Digital Network, Basic and Primary Rate Interface. We provide high speed circuits with speed from fractional T-1s to DS-3. We have completed the installation of an Asynchronous Transfer Mode Network to offer our customers

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high-speed data transmission on a more efficient and reliable network capable of offering Frame Relay and Asynchronous Transfer Mode.

WIRELESS NETWORK

We believe our island-wide coverage is more extensive than that of our competitors as a result of having installed a greater number of cell sites in the interior of the island. Our wireless network:

- consists primarily of Ericsson equipment;
- utilizes the IS-136 standard with time division multiple access digital technology; and
- is composed of 131 cells with digital capability and 18 microcells.

REGULATORY ENVIRONMENT IN PUERTO RICO

INTRODUCTION

We hold franchises, licenses and permits adequate for the conduct of our business in the markets which we serve. Advances in technology, together with a number of regulatory, legislative and judicial actions, continue to accelerate and increase the competition affecting our operations and the opportunities available to us. The Federal Telecommunications Act of 1996 is intended to promote competition in all sectors of the telecommunications marketplace, while preserving and advancing universal telephone service.

The Federal Telecommunications Act of 1996 presents us with both challenges and opportunities. We will face additional competition from numerous sources,

such as other incumbent local exchange carriers, new competitive local exchange carriers, wireless carriers, cable television service providers, and long distance companies. However, we have been permitted, since February 1, 1999, to provide a full array of local, long distance, Internet access, wireless and video services both within and outside of our traditional operating areas, and are now able to generate new sources of revenue from customers previously beyond our reach.

The telecommunications regulatory environment in Puerto Rico is undergoing change. With the passage of the Federal Telecommunications Act of 1996, which amended the 1934 Federal Act, our legal monopoly was eliminated. The Puerto Rico legislature amended the Puerto Rico Telephone Authority Organic Act and enacted the Puerto Rico Telecommunications Act in September 1996, which reorganized the regulation of the telecommunications sector in Puerto Rico. The Puerto Rico Telecommunications Act provides for the creation of the Telecommunications Board, the main purpose of which is to regulate telecommunications and cable television services on the island. The Puerto Rico Telecommunications Act also incorporates the pro-competitive and universal service features found in the Federal Telecommunications Act of 1996. We are also subject to regulation by the Puerto Rico Planning Board, the Administration of Regulations and Permits of Puerto Rico and the Environmental Quality Board.

We have been responding and will continue to respond to the challenges presented by regulatory and legal developments that allow for increased competition and opportunities in Puerto Rico's telecommunications market. We expect our financial results to benefit from reduced costs and the introduction of new products and services that will result in increased usage of our telephone and wireless networks. However, it is likely that these improvements will be offset, at least in part, by continued strategic pricing reductions and the effects of increased competition. For a discussion of a recent regulatory development which addresses reciprocal compensation arrangements with Internet service providers, see "Management's Discussion and Analysis of Financial Conditions and Results of Operations -- Recent Internet Regulatory Action."

We are involved in proceedings arising under the Federal Telecommunications Act of 1996, the FCC Rules and the Puerto Rico Telecommunications Act, including disputes relating to access charges. The unfavorable resolution of these matters may have an adverse effect on our financial results.

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UNITED STATES TELECOMMUNICATIONS REGULATION

The regulation of telecommunications services is generally divided between the inter-state and intra-state jurisdictions, as required under Section 2(b) of the 1934 Federal Act, as amended. The FCC regulates inter-state and wireless services, and state commissions regulate intra-state services. Recent legislative efforts and the development of new services, however, have blurred this distinction.

Local Competition

The Federal Telecommunications Act of 1996 amended the 1934 Federal Act to advance universal service and open the telecommunications market to local competition by requiring the incumbent local exchange carriers to enter into agreements permitting other telecommunications carriers to access and utilize the incumbent local exchange carriers' network for the provision of competitive local services. The Federal Telecommunications Act of 1996 also provides for the resale of incumbent local exchange carrier services by other telecommunications companies. Although local services have been regulated at the state level, Sections 251 and 252 of the 1934 Federal Act set forth a blend of state and federal oversight of competitive entry into the local exchange service market. The statute provides detailed procedures that state commissions must follow in

the mediation, arbitration, revision and approval of interconnection agreements between carriers. If a state fails to act in this regard, the FCC is required to act in its place.

In August 1996, the FCC issued extensive rules implementing the local competition provisions of the Federal Telecommunications Act of 1996. Included in the FCC's local competition rules is a detailed pricing methodology to be employed by states in interconnection proceedings and proxy rates that may be applied until states complete the cost studies needed to implement the FCC's pricing methodology. Upon complaint by GTE Corporation, various other incumbent local exchange carriers and several regulatory entities, enforcement of the FCC's pricing rules was stayed by the United States Court of Appeals for the Eighth Circuit in October 1996. In July 1997, the court found that the FCC had overstepped its authority in a number of areas and upheld the complainants' position that state regulatory agencies bear the primary responsibility for determining the prices which competing firms must pay when interconnecting their networks. The judgment of the Court of Appeals was appealed to the United States Supreme Court and a decision was rendered in January 1999. The Supreme Court held that the FCC had authority to implement the pricing provisions of the Federal Telecommunications Act of 1996 and "jurisdiction to design a pricing methodology" to be followed by the states in interconnection proceedings. The Supreme Court remanded to the Eighth Circuit the issue of the substantive validity of the rules adopted by the FCC. GTE Corporation has stated publicly that it plans to contest the merits and validity of the FCC's current rules setting out the pricing methodology. The Supreme Court also ruled that the FCC failed to properly construe the legal standards of the Federal Telecommunications Act of 1996 that govern which network elements incumbent local exchange carriers must make available to competitive local carriers, overturning the blanket unbundling rule which was adopted by the FCC and challenged by GTE Corporation and other incumbent local exchange carriers.

Universal Service and Access Charges

With regard to universal service, the U.S. Congress similarly has provided for a dual effort to ensure that basic telephone service is affordable for all citizens. The FCC has also adopted rules designed to provide support for high cost carriers for the inter-state jurisdiction, although this support may only be used to offset the cost of inter-state services. The FCC rules also provide support to low income subscribers, public and non-profit health care centers, schools and libraries. The Federal Telecommunications Act of 1996 further provides that states may also create these price support funds as long as they are not inconsistent with the Federal program. All telecommunications carriers in Puerto Rico are required by Federal and Puerto Rico laws to contribute to the federal and Puerto Rico universal service programs.

The Federal Telecommunications Act of 1996 mandates that all universal service support be specific and predictable. Thus, inter-state access charges must be adjusted to remove any implicit universal service support. To the extent that these changes reduce the revenues generated by inter-state access charges and are

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not offset by universal service support, any unrecovered revenue requirement likely will fall to the intra-state jurisdiction for recovery.

Regulation of Commercial Mobile Radio Service Providers

In 1993, Congress preempted state regulation of market entry and rates charged by commercial mobile radio service providers such as Celulares Telefonica, including for intra-state wireless calls, and the FCC has since deregulated commercial mobile radio service rates. Jurisdiction over consumer-related issues, such as billing disputes and fraud, still resides with

the states. Despite this statutory distinction, however, some parties have disputed the appropriate forum for deciding issues related to mobile services on jurisdictional grounds.

PUERTO RICO FEDERAL TELECOMMUNICATIONS ACT OF 1996

General Provisions

The Puerto Rico Telecommunications Act was signed into law on September 12, 1996. The Puerto Rico Telecommunications Act creates the Telecommunications Regulatory Board, investing it with the duty and authority to regulate the provision of telecommunications services in Puerto Rico. The Telecommunications Board regulates us and all other telecommunications and cable service providers in Puerto Rico.

The Puerto Rico Telecommunications Regulatory Board

The Telecommunications Board is an independent agency of the Commonwealth of Puerto Rico and is comprised of three members appointed by the Governor with the advice and consent of the Puerto Rico Senate. On May 16, 1997, the Telecommunications Board adopted regulations regarding the certification of telecommunications providers in Puerto Rico and the imposition of regulatory fees on telecommunications companies. The Telecommunications Board's "Regulations for the Issuance of Certifications and Franchises" establish the conditions and procedures for telecommunications companies to secure certifications and for cable companies to secure franchises under the Puerto Rico Telecommunications Act. Among other things, the certification regulations provide that companies seeking certification must submit to the Telecommunications Board a detailed petition, which will be granted if the petitioner is found to be legally, technically, financially and morally qualified. Companies already providing telecommunications services in Puerto Rico will be certified automatically once they submit the required petition, and commercial mobile radio service providers and inter-state service providers need not be certified to offer service.

The Telecommunications Board's "Regulation on the Imposition of Charges on Telecommunications Companies" governs the assessment of a quarterly charge to defray the costs of the Telecommunications Board's operations. Pursuant to the Puerto Rico Telecommunications Act, the regulation establishes that all telecommunications companies with an annual gross income of \$25,000 or more are to pay a quarterly charge equal to 0.25% of their gross revenues earned from the provision of intra-state telecommunications services in Puerto Rico. The regulation also provides that the Telecommunications Board may order a telecommunications company to reimburse the extraordinary expenses incurred for professional and advisory services in connection with hearings and investigations by the Telecommunications Board with respect to the company.

Provisions for Telecomunicaciones de Puerto Rico

The Puerto Rico Telecommunications Act directs the Telecommunications Board to presume that we control the local service, access service and on-island toll markets as of the date of enactment of the Puerto Rico Telecommunications Act. The Telecommunications Board is not to presume that we possess control of the cellular or paging service markets. The Telecommunications Board may refrain from enforcing the provisions of the Puerto Rico Telecommunications Act, with the exception of the universal service contribution requirement, against carriers which do not possess control of the market. Within three years of the effective date of the Puerto Rico Telecommunications Act, the Telecommunications Board is to initiate a proceeding to determine if we retain control of the various markets or any parts thereof. If it is determined that we do not retain control of the market in any line of business, the Telecommunications Board may refrain from enforcing the provisions of the Puerto Rico Telecommunications Act against us to that extent.

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Competitive Provisions

The Puerto Rico Telecommunications Act includes a number of competitive provisions that mirror the Federal Telecommunications Act of 1996. In some instances, the Puerto Rico Telecommunications Act extends the Federal Telecommunications Act of 1996's incumbent local exchange carrier-specific obligations to non-incumbent local exchange carrier's as well. Under the Puerto Rico Telecommunications Act, every telecommunications company is required to provide interconnection to its facilities at any point in its network where it is technically feasible and each telecommunications company is to be paid for interconnection to its network based on the "real costs" and the profits as provided for in the Federal Telecommunications Act of 1996. The Puerto Rico Telecommunications Act also guarantees the competitive availability of unbundled network elements, wholesale discounts for resale offerings, physical and virtual colocation, access to poles, ducts, conduits and rights-of-way, number portability, and access to directory assistance, telephone directories, 911 service and repair service.

Under the Puerto Rico Telecommunications Act, no telecommunications company may subsidize competitive services with income generated by noncompetitive services. All telecommunications companies are to maintain separate accounting records for their competitive and noncompetitive services for this purpose. Similarly, no telecommunications company may offer any service at prices below cost except for promotional offerings of short duration with the previous consent of the Telecommunications Board. The Telecommunications Board is directed to take appropriate action to enforce these requirements or to lodge complaints with the Puerto Rico Department of Justice.

Interconnection Agreements

The Puerto Rico Telecommunications Act duplicates the provisions of the Federal Telecommunications Act of 1996 regarding negotiation, arbitration, and approval of interconnection agreements. In particular, the Puerto Rico Telecommunications Act follows the federal scheme of voluntary interconnection negotiations supplemented by Telecommunications Board mediation or arbitration of unresolved issues. All interconnection agreements must be submitted to the Telecommunications Board for approval.

Universal Service

The Puerto Rico Telecommunications Act contains a provision on universal service that complements the provisions in the Federal Telecommunications Act of 1996. This law requires all telecommunications companies operating in Puerto Rico to make an equitable and nondiscriminatory contribution to the Universal Service Fund program adopted by the Telecommunications Board. The Telecommunications Board is required to conduct a rule-making proceeding to establish a mechanism for the collection and distribution of universal service support. The Telecommunications Board must certify a telecommunications company in order for it to receive universal service funds from the local as well as the federal programs. Puerto Rico Telephone Company is already certified to receive funds.

Filing of Prices and Charges

The Puerto Rico Telecommunications Act requires all telecommunications companies, except for wireless companies, to submit to the Telecommunications Board a list of prices and charges and to update that list each time a change is implemented in the market. Upon complaint by an interested party, the Telecommunications Board is to determine whether or not the prices and charges set forth in a company's list are based on cost of providing service to customers. The Telecommunications Board is given a maximum of thirty days to

adjudicate these complaints. However, the local courts have determined that the thirty day period is only a directive and not a jurisdictional limit. It may suspend the prices or charges in question pending resolution of the matter. The Telecommunications Board may order the permanent suspension of a rate if it is determined not to be based on cost and it may impose an administrative fine of up to \$25,000 for each violation of the Puerto Rico Telecommunications Act.

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Interconnection Arbitration Proceedings and Agreements

Pursuant to the local competition provisions of the 1934 Federal Act, as amended by the Federal Telecommunications Act of 1996, incumbent local exchange carriers must negotiate the terms of interconnection agreements with new entrants. When the parties cannot mutually agree on all terms and conditions of interconnection, either the new entrant or the incumbent carrier may initiate arbitration before the Telecommunications Board. On September 5, 1997, the Telecommunications Board approved regulations regarding procedures for the negotiation, arbitration and approval of interconnection agreements.

We have been a party to six arbitration proceedings before the Telecommunications Board. Each proceeding was instituted by an entity seeking an interconnection agreement with us but which did not agree with particular terms or conditions of interconnection we required. These proceedings are conducted by the Telecommunications Board pursuant to Section 252 of the Federal Telecommunications Act of 1996 and the Puerto Rico Telecommunications Act.

As a result of the proceedings, the initiating parties have executed interconnection agreements with us. At present an arbitration proceeding has been requested with regard to a new interconnection agreement that is still being negotiated.

EMPLOYEES

Our workforce totaled 7,703, employees plus 495 temporary employees as of December 31, 1998 and 6,746 employees plus 349 temporary employees as of September 30, 1999. Approximately 77% of the full-time employees are members of one of two unions, the Union of Independent Telephone Workers, known as UIET, or the Brotherhood of Independent Telephone Workers, known as HIETEL. Union membership is mandatory for certain job categories. Our employees generally fall into three different groups:

- management;
- employees represented by HIETEL under a collective bargaining agreement that is in effect until November 6,, 1999 that covers more than 1,700 professional, office and technical employees in the bargaining unit. Bargaining with HIETEL began on September 15, 1999; and
- employees represented by the UIET under two collective bargaining agreements which are effective until January 17, 2000. One of the agreements with UIET covers approximately 3,900 employees, including all hourly employees with the exception of those employed in personnel, payroll, and safety matters, as well as professional, office, and technical employees. The other agreement with UIET covers approximately 160 office and administrative employees. We anticipate early bargaining with UIET to commence on or about October 1, 1999.

We agreed as a condition to the acquisition not to terminate an employee other than for cause. The workforce will therefore decrease only through voluntary retirement and separation programs and attrition. A voluntary early

retirement was recently implemented for the three employee groups:

<TABLE>
<CAPTION>

	MANAGEMENT	UIET	HIETE
	-----	-----	-----
<S>	<C>	<C>	<C>
Date Announced.....	May 21	June 25	July 28
Retirement Date.....	July 9	September 3	October
Eligible Employees.....	277	585	201
Employees Accepting Early Retirement.....	274	542	185
Estimated Program Cost.....	\$83 million	\$44 million	\$38 mill

</TABLE>

The main feature of the early retirement program involved adding five years to age and five years to service in the pension calculation. Management employees who are at least 50 years old and have a minimum of 20 years of service qualified for the program.

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To be eligible for the early retirement program union employees must:

- be 50 years old and have 20 years service, or
- be 62 years old and have 10 years of service (UIET); or
- be 60 years old and have 10 years of service (HIETEL), or
- be 65 years old and have 9 years of service, or
- have 30 years of service.

The range in estimates for the union programs is due to a range in estimated acceptance rates.

The voluntary early retirement program is also available to disabled employees. As of September 30, 1999, 81 HIETEL employees and 263 UIET employees have applied to participate in this program. The final number of participants will be determined after the medical evaluation of the employees who have applied for this program.

PROPERTIES

Our principal properties consist of telecommunications network infrastructure and related buildings throughout Puerto Rico. As of December 31, 1998, we owned an aggregate of approximately 148 acres of land upon which our offices and network equipment are located.

Our principal administrative office and operations center are located in the metropolitan area of San Juan. We also maintain retail stores, administrative offices and operations centers throughout Puerto Rico.

INSURANCE

We believe that we maintain the types and amounts of insurance customary in the telecommunications industry in the type of geographic area in which we

operate, including coverage for employee-related accidents and injuries and property damage. Our outside plant is currently insured within a 1,000 foot radius of our property. We consider our insurance coverage to be adequate both as to risks and amounts for the business we conduct.

ENVIRONMENTAL REGULATIONS

Our operations are subject to federal, state and local laws and regulations governing the use, storage, disposal of, and exposure to, hazardous materials, the release of pollutants into the environment and the remediation of contamination. As an owner or operator of facilities where hazardous materials are used, we could be subject to environmental laws that impose liability for the entire cost of cleanup at contaminated sites, regardless of fault or the lawfulness of the activity that resulted in the contamination. We believe, however, that our operations are in substantial compliance with applicable environmental laws and regulations.

Many of our properties formerly and currently contain underground and aboveground storage tanks used for the storage of fuel. Some of these tanks may have leaked or otherwise caused contamination. We have investigated and remediated, and are currently investigating and remediating, known contamination at a number of properties. We cannot be sure, however, that we have discovered all contamination or that the regulatory authorities will not request additional remediation at sites that have previously undergone remediation.

Our cellular operations are also subject to regulations and guidelines that impose a variety of operational requirements relating to radio frequency emissions. The potential connection between radio frequency emissions and certain negative health effects, including some forms of cancer, has been the subject of substantial study by the scientific community in recent years. To date, the results of these studies have been inconclusive. Although we have not been named in any lawsuits alleging damages from radio frequency emissions, it is possible we could be sued in the future, particularly if scientific studies conclusively determine that radio frequency emissions are harmful.

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LEGAL PROCEEDINGS

We are involved from time to time in various legal and administrative proceedings and are threatened with legal and administrative proceedings incidental to our business. In the opinion of management, the resolution of any of these matters will not have a material adverse effect on our consolidated financial position. In connection with the acquisition, the Puerto Rico Telephone Authority agreed to indemnify, defend and hold us harmless for specified significant litigation, including one environmental matter.

On March 1, 1999, several Puerto Rico labor unions and a Puerto Rico elected official filed a Notice of Appeal in the U.S. Court of Appeals for the D.C. Circuit, challenging the FCC's order granting the applications for the transfer of control of licenses held by Puerto Rico Telephone Company and Celulares Telefonica from the Puerto Rico Telephone Authority to GTE Holdings and the authorization to provide off-island long distance service. The Notice of Appeal claims that the FCC's denial of public hearings in Puerto Rico resulted from a clear error of judgment, amounting to a capricious and arbitrary action that constituted an abuse of discretion of the FCC's adjudicating authority. The petitioners seek to stay the operation of the FCC Order pending final hearing and determination of the petition, vacate the FCC Order, or in the alternative, remand the FCC Order with instructions to hold public hearings in Puerto Rico. The petitioners recently voluntarily withdrew their appeal before the Court of Appeals, but have submitted a Petition for Reconsideration before the FCC. We believe that the claims of the petitioners are without merit.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the Commission a registration statement on Form S-4 under the Securities Act, to register the offering of exchange notes contemplated in this prospectus. This prospectus, which is a part of the registration statement, does not contain all of the information presented in the registration statement. For further information about us, the exchange offer and any documents referred to in this prospectus, you should refer to the registration statements and its exhibits.

As a result of the filing of this registration statement with the Commission, we will become subject to the informational requirements of the Exchange Act and will be required to file with or furnish to the Commission certain reports and other information.

The registration statement, its exhibits and schedules, reports, and other information that we have filed with or furnished to the Commission may be inspected and copied at the Commission's Public Reference Room located at 450 Fifth Street, N. W. Washington, D.C. 20549. You may obtain information by calling the Commission's Public Reference Room at 1-800-SEC-0330. You may also obtain information filed by us with the Commission at the Commission's Internet site at <http://www.sec.gov>.

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MANAGEMENT

BOARD OF DIRECTORS

The directors of the Company as of October 15, 1999 are as follows:

<TABLE> <CAPTION>			
NAME	AGE	PRINCIPAL OCCUPATION	NOMINATED BY
----	---	-----	-----
<S>	<C>	<C>	<C>
Fares Salloum	50	Senior Vice President -- International Operations of GTE Service Corporation	GTE Holdings (
Alfred C. Giammarino	43	Senior Vice President -- International Finance, Planning and Business Development of GTE Service Corporation	GTE Holdings (
Michael T. Masin	53	Vice Chairman and President International of GTE	GTE Holdings (
Jon Slater	53	President and Chief Executive Officer of Telecomunicaciones de Puerto Rico	GTE Holdings (
Richard Carrion	46	Chairman, President and Chief Executive Officer of Popular, Inc.	Popular, Inc.
Angel Morey	52	Chief of Staff, Office of the Governor of Puerto Rico	Puerto Rico Te
Lourdes M. Rovira	49	President, Government Development Bank	Puerto Rico Te
Carlos Vivoni	40	Secretary, Puerto Rico Department of Economic Development and Commerce	Puerto Rico Te

</TABLE>

Fares Salloum is Chairman of the Board of Telecomunicaciones de Puerto

Rico. He was appointed Senior Vice President of International Operations for GTE Service Corporation in June of 1997 and Executive Vice President of GTE International Telecommunications Incorporated in July 1998. Prior to June 1997, Mr. Salloum was Executive Vice President of BC TELECOM Inc., a full service telecommunications provider in the province of British Columbia, Canada. He is a director of BCT.Telus Communications, Inc., a telephone company operating in Canada and Compania Anonima Nacional de Telefonos de Venezuela, known as CANTV, a telephone company operating in Venezuela.

Alfred C. Giammarino was appointed Senior Vice President of International Finance, Planning and Business Development for GTE Service Corporation and Senior Vice President of GTE International Telecommunications Incorporated in July 1998. Prior to that he held various positions at GTE Service Corporation. He is a director of VenWorld Telecom C.A., which holds a controlling interest in CANTV, CTI Holdings, S.A., and The QuebecTel Group, Inc.

Michael T. Masin was appointed Vice Chairman of GTE Corporation in October 1993 and President International in 1995. Prior to that, he was Managing Partner of the New York office of the law firm of O'Melveny & Myers and co-chair of that firm's International Practice Group. Mr. Masin joined that firm in 1969 and became a partner in 1977. He is a director of GTE, Citigroup Inc., BCT.Telus Communications, Inc., CANTV and VenWorld Telecom C.A. Mr. Masin is a member of the Board of Trustees and Executive Committee of Carnegie Hall, the Board of Directors and Executive Committee of the W.M. Keck Foundation, the Board of Directors of the China America Society, the Dean's Advisory Council of Dartmouth

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College and the Business Committee of the Board of Trustees of the Museum of Modern Art, the Council of Foreign Relations and a Personal Trustee of the GTE Foundation.

Jon Slater was appointed our President and Chief Executive Officer-elect in October 1998. Prior to that, he was Vice President -- Operating Support for GTE Wireless since 1997, having previously served in various positions with GTE since 1971. Other positions that Mr. Slater has held with GTE include Area President -- Texas for GTE Mobilnet's Texas region, Vice President and General Manager for GTE Telecom and GTE Government/Telecommunications Services, and Vice President -- Operations for GTE Airfone. Mr. Slater oversaw the transition during the period prior to the assumption of his duties as President and Chief Executive Officer of the Company on March 2, 1999.

Richard L. Carrion has been Chairman of the Board, President and Chief Executive Officer of Popular, Inc., a bank holding company formerly called BanPonce Corporation, since 1990 and has been a director of Banco Popular since 1982. Mr. Carrion is a director of the Federal Reserve Bank of New York and Bell Atlantic Corporation and serves as a member of its Human Resources Committee.

Angel Morey has been the Chief of Staff of the Governor of Puerto Rico and Secretary of Strategic Development of Puerto Rico since 1995. Prior to that he was President of Badillo, Nazca, Saatchi & Saatchi since 1994. Prior to that he was Executive Vice President and General Manager of the Foods and Spirits Distribution Corporation. Since 1988, and prior to that, Mr. Morey held various executive positions with the Bacardi Corporation and F. & J.M. Carrera Inc.

Lourdes M. Rovira has been the President of the Government Development Bank since August 1998. From 1995 until her appointment as President, Ms. Rovira was Executive Vice President and held other positions at the Government Development Bank. Prior to that she was Director of Finance at the University of Puerto Rico from 1993 to 1995. From 1990 through 1993, Ms. Rovira was Senior Vice-President of Operations and Treasurer at Caribbean Life Assurance Company and Caribbean American Property Insurance Company, subsidiaries of the American Bankers Insurance Group. Ms. Rovira is Chairman of the Board of Directors of the

Economic Development Bank and the Governor's Financial Board. She is also a Director of the Puerto Rico Aqueduct and Sewer Authority, the Teachers Retirement System and the Retirement System of the Employees of the Government of Puerto Rico.

Carlos Vivoni has been the Secretary of the Puerto Rico Department of Economic Development and Commerce since January of 1997. From 1993 to 1996 Mr. Vivoni headed the Puerto Rico Department of Housing. Prior to that he worked as Vice President for Citibank N.A. in Puerto Rico, as a Research Engineer for Exxon Production Research Company in Houston, Texas and Tokyo, Japan, and as an intern at the Lawrence Livermore Laboratory in California. Mr. Vivoni is a member of the Governor's Economic Development Council, the Governor's Science and Technology Council and the Governor's Foreign Trade Board, is President of the Board of Directors of the Puerto Rico Tourism Company and the Puerto Rico Industrial Development Company and is a member of the Board of Directors of the Government Development Bank.

Since March 17, 1999 the Board of Directors has had a standing Audit Committee. The members of the Audit Committee are Alfred Giammarino, Lourdes Rovira, Carlos Vivoni and Ignacio Santillana. The Audit Committee oversees the financial reporting process for which management is responsible, reviews the services provided by our independent auditors, consults with the independent auditors in regard to our audits and proposed audits, and reviews the need for internal auditing procedures and the adequacy of our internal control systems.

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EXECUTIVE OFFICERS

The executive officers of the Company as of October 15, 1999 are as follows:

<TABLE>

<CAPTION>

NAME	AGE	TITLE
----	----	-----
<S>	<C>	<C>
Jon Slater	53	President and Chief Executive Officer
Frank Gatto	45	Vice President of Finance and Chief Financial Offi
Jose E. Arroyo	35	Vice President of Legal and Regulatory Affairs
Cristina Lambert	50	Vice President and General Manager of Wireline
Carla Ussery	36	Vice President and General Manager of Wireless
Carmen Carro	51	Vice President of Customer Care and Sales
Georgia Scaife	49	Vice President of Human Resources
Ileana Molina de Bachman	43	Vice President Corporate Communications
Joaquin Rivera	60	Vice President of Network Services, Engineering ar
		Technical Planning
Felipe Piazza	48	Treasurer

</TABLE>

Frank Gatto was appointed Vice President of Finance and Chief Financial Officer on August 27, 1999. He has over 21 years of experience with GTE Corporation. Prior to joining Puerto Rico Telephone Company, Mr. Gatto was Vice President -- Finance and Planning at GTE Airfone. From 1988 to 1995, Mr. Gatto served in various finance and planning positions in GTE Wireless and GTE Corporation. Prior to 1988, Mr. Gatto held numerous accounting positions within GTE Electrical Products Group, including Division Controller. Mr. Gatto holds a bachelor's degree in economics from Villanova University and a master's degree in business administration in finance from Boston College.

Jose E. Arroyo was appointed Vice President of Legal and Regulatory Affairs on March 17, 1999. He joined Puerto Rico Telephone Company in 1995 and served as Legal Counsel to the President and was later appointed as Vice President of

Human Resources, Legal and Regulatory Affairs. Mr. Arroyo has held the positions of Assistant Secretary of the Governing Board of the Puerto Rico Telephone Authority, Assistant Secretary of the Board of Directors of Telecomunicaciones de Puerto Rico, Puerto Rico Telephone Company, and Celulares Telefonica, and President of the Pension Committee of Puerto Rico Telephone Company. Prior to joining Puerto Rico Telephone Company, he was Associate Counsel for Civil and Labor Litigation for two law firms in Puerto Rico. He also served as Special Assistant to the Attorney General of Puerto Rico. Mr. Arroyo holds a B.S. Magna Cum Laude and a J.D. Magna Cum Laude from the University of Puerto Rico.

Cristina Lambert was appointed Vice President and General Manager of Wireline on June 3, 1999. Ms. Lambert is responsible for all of Puerto Rico Telephone Company's voice and data wireline operations. She has over 25 years of experience in the telecommunications industry. After serving in various service management and staff positions in Contel and GTE Corporation, in 1995 she was named general manager-customer operations in Illinois, where she supervised wireline telephone services for nearly one million customers. In 1997, Ms. Lambert became assistant Vice President -- Integrated Process Planning for GTE Corporation. The following year she assumed her most recent responsibilities directing and implementing business strategies for GTE Corporation national customer care organization. Ms. Lambert was born in the Republic of Panama and holds a bachelor's degree in business management from Indiana University and a master's degree in business administration from Indiana Wesleyan University.

Carla Ussery was appointed Vice President and General Manager of Wireless on March 17, 1999. Ms. Ussery began her career as an accountant with the firm of Arthur Andersen. She remained at Arthur Andersen for five years, after which she accepted a position with GTE Corporation as compliance coordinator, ensuring field compliance with company policies. Ms. Ussery was subsequently appointed to positions in the finance area, including Manager of SEC Reporting and Manager of Budget Results. Most recently, she has held the position of General Manager, responsible for field operations, including sales and installations, in-

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store customer service, marketing coordination, public relations and community event coordination. Ms. Ussery has been with GTE Corporation for eight years. She holds a bachelors degree in Business Administration from the University of Virginia and is a licensed Certified Public Accountant in the State of Virginia.

Carmen Carro was appointed Vice President of Customer Care and Sales on March 2, 1999. Prior to that, she held the position of Vice President of Residential and Traffic Services. Ms. Carro has worked in the telecommunications business for 28 years and has held various positions at Puerto Rico Telephone Company, including Senior Director of Recruitment, and Payroll and Force Management Supervisor since she was hired in 1971. Ms. Carro holds a bachelors degree in Economics and Business Administration from the Inter-American University in Puerto Rico.

Georgia Scaife was appointed Vice President of Human Resources on March 17, 1999. Ms. Scaife started her career with GTE Corporation in July 1981 in Santa Monica, California. She has held numerous positions during her 17 year tenure with GTE Corporation, including Director of Human Resources (GTE Supply), Director of Diversity and Compliance Programs (GTE Telephone Operations), Director of Workforce Effectiveness (GTE Telephone Operations), and Director of Employee Relations (GTE Service Corporation). Ms. Scaife holds a bachelors of arts degree in sociology and has done post-graduate work in public and business administration.

Ileana Molina De Bachman was appointed Vice President of Corporate Communication of the Puerto Rico Telephone Company, effective August 30, 1999. Ms. Bachman has over 22 years of experience in marketing-strategic planning. Prior to joining Puerto Rico Telephone Company, Ms. Bachman worked for Suiza

Fruit Caribbean and from 1995 to 1998 she worked for Frito Lay. She has also worked for other multinational companies, including Procter & Gamble, Young and Rubicam and RJ Reynolds. Ms. Bachman's experience includes markets such as Puerto Rico, Mexico, Dominican Republic and the Hispanic market in the United States. Ms. Bachman holds a bachelors degree from the Boston College School of Management.

Joaquin Rivera was appointed Vice President of Network Services Engineering and Technical Planning on March 17, 1999. Mr. Rivera has 34 years of experience in operations and engineering positions in telecommunications companies. Since joining Puerto Rico Telephone Company in 1993, he has held various management positions at Puerto Rico Telephone Company, including Vice President of Engineering and Network Services and Senior Vice President of Network Services. Mr. Rivera also worked at the Puerto Rico Communications Corporation or PRCC as Group Director of Telephone Operations between 1971 and 1977, and worked on the integration of PRCC's operations into Puerto Rico Telephone Company. During his years of service in the private sector, he held various management positions in the international division of GTE Telecommunications Systems in Latin America and the Caribbean. Mr. Rivera is a graduate of the University of Puerto Rico, Mayaguez campus, and holds a bachelors of science degree in Electrical Engineering.

Felipe Piazza has been Treasurer of Puerto Rico Telephone Company since 1996 and Treasurer of Telecomunicaciones de Puerto Rico and Celulares Telefonica since March 17, 1999. Mr. Piazza has 26 years of experience in the telecommunications industry. Since joining Puerto Rico Telephone Company in 1973, Mr. Piazza has occupied various management and executive positions, including Director -- Corporate Budget, Comptroller, Vice President -- Finance and Comptroller, Treasurer of the Puerto Rico Telephone Authority, Assistant Vice President -- Cellular and Beepers, Assistant Vice President and Group Director -- Cost Separations and Rates, Treasurer of Telecomunicaciones Ultramarinas de Puerto Rico and Assistant Treasurer of Telecomunicaciones de Puerto Rico. Mr. Piazza is a graduate of the University of Puerto Rico, Mayaguez campus, and holds a bachelors degree in Business Administration.

INDEMNIFICATION FOR SECURITIES ACT LIABILITY

The certificate of incorporation of Telecomunicaciones de Puerto Rico provides for the indemnification of its directors and officers to the full extent permitted by the General Corporation Law of the Commonwealth of Puerto Rico, as it currently exists or as may be hereafter amended. This indemnification provision covers directors, officers, employees or agents involved in any litigation or proceeding involving the corporation if he

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or she acted in good faith and in a manner which the person reasonably deemed consistent with the best interests of the corporation or not opposed thereto, and with respect to any criminal proceeding, if he or she did not have reasonable cause to believe that his or her conduct was unlawful. The indemnity may include expenses actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit. In the case of actions or suits other than those initiated by the corporation or initiated to protect the interests of the corporation, the indemnity may also include the amount of any judgement paid in settlement of such action. However, no indemnification is permitted without judicial approval if the officer, director, employee or agent is adjudged to be liable to the corporation. Where an officer, director, employee or agent is successful on the merits or otherwise in the defense of any action referred to above, the corporation may indemnify her against the expenses which such officer or director has actually incurred.

In addition, Telecomunicaciones de Puerto Rico maintains and has in effect insurance policies covering all of its respective directors and officers against certain liabilities for actions taken in such capacities. These employees are

also covered for specified liabilities under the Securities Act.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling Telecommunicaciones de Puerto Rico pursuant to the foregoing provisions, Telecommunicaciones de Puerto Rico has been informed that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

COMPENSATION

SUMMARY COMPENSATION TABLE

The following table sets forth information about the compensation for the five most highly compensated employees of Telecommunicaciones de Puerto Rico.

<TABLE>

<CAPTION>

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION			REST S AWAF
		SALARY (\$)	BONUS (\$)	OTHER ANNUAL COMPENSATION (\$)	
<S>	<C>	<C>	<C>	<C>	<C>
Jorge Menendez, CFO.....	1998	136,004	11,503		
Carmen Culpeper, President...	1998	137,000	--		
Juan Velazquez, VP Network...	1998	119,090	9,653		
Felipe Piazza, Treasurer.....	1998	116,400	10,170		
Ivan Lopez Roura.....	1998	113,297	9,071		

<CAPTION>

NAME AND PRINCIPAL POSITION	ALL OTHER COMPENSATION (\$)
<S>	<C>
Jorge Menendez, CFO.....	
Carmen Culpeper, President...	
Juan Velazquez, VP Network...	
Felipe Piazza, Treasurer.....	
Ivan Lopez Roura.....	

</TABLE>

PENSION PLANS

The following table illustrates the estimated annual benefits payable under our defined benefit pension plan. The table assumes normal retirement age 65 and is calculated on a single life annuity basis, based upon final average earnings (integrated with social security as described below) and years of service:

PENSION PLAN TABLE

<TABLE>

<CAPTION>

FINAL AVERAGE SALARY	YEARS OF SERVICE		
	15 YEARS	20 YEARS	25 YE
<S>	<C>	<C>	<C>
\$100,000.....	\$26,851	\$38,611	\$48,2
125,000.....	34,351	48,611	60,7

150,000.....	41,851	58,611	73,2
175,000.....	44,851	62,611	78,2
200,000.....	44,851	62,611	78,2

</TABLE>

All of our executive officers are covered under our retirement plan for salaried employees. The retirement plan for salaried employees is a noncontributory pension plan for the benefit of all of our employees who are not covered by collective bargaining agreements, unless the agreement provides for coverage under the retirement plan for salaried employees. It provides a benefit based on a participant's years of service and earnings. Our pension benefits and contributions to the retirement plan for salaried employees are related to

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basic salary differentials, exclusive of overtime differentials, incentive compensation and other similar types of payments. Under the retirement plan for salaried employees, pensions are computed on an offset formula basis of 2% of average annual salary for the three highest consecutive years for each year of service up to 25 years plus 1.5% of average annual salary for the three highest consecutive years for each year of service between 25 and 40 years, offset by a percentage (based on age and service) of average annual salary up to the social security wage base for the last three years of service, but not in excess of social security covered compensation. As of December 31, 1998, the credited years of service under the retirement plan for Messrs. Menendez, Velazquez, Piazza and Roura, are 25, 23, 25 and 26 years, respectively. Ms. Culpeper was not covered by the retirement plan for salaried employees.

Under federal law, an employee's benefits under a qualified pension plan, such as the retirement plan for salaried employees, are limited to certain maximum amounts. We maintain a supplemental executive retirement plan, which supplements the benefits of any participant in the retirement plan for salaried employees in an amount by which any participant's benefits under the retirement plan for salaried employees are limited by law.

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SHAREHOLDERS AND SHAREHOLDER RELATIONSHIPS

SHARE OWNERSHIP

Our authorized capital stock consists of 10,000,000 shares of common stock with a nominal per share par value equal to \$.01, of which 1,000,000 shares have been issued and are outstanding. The following table sets forth selected information with respect to the beneficial ownership of our common stock, as of October 15, 1999:

<TABLE>
<CAPTION>

NAME OF BENEFICIAL OWNER	ADDRESS	BENEFICIAL NUMBER
<S>	<C>	<C>
GTE Holdings (Puerto Rico) LLC	GTE Holdings (Puerto Rico) LLC 5221 North O'Connor Boulevard Irving, Texas 75039	400,101
Puerto Rico Telephone Authority	Puerto Rico Telephone Authority c/o Government Development Bank for Puerto Rico Minillas Government Center	

Popular, Inc.	San Juan, Puerto Rico 00940	429,999
	209 Munoz Rivera Avenue	
	Hato Rey, Puerto Rico 00918	99,900
Employee Stock Ownership Plan	c/o Dennis M. Kunisaki	
	U.S. Trust Company, National Association	
	515 South Flower Street	
	Los Angeles, California 90171	70,000
All Directors and Executive Officers as a Group (17 persons)		0

</TABLE>

-
- (1) Of these shares, 3% are unallocated and pledged to Telecomunicaciones de Puerto Rico to secure its loan to the employee stock ownership plan.

The GTE Group's percentage ownership of our company would increase further upon exercise of the option granted by the Puerto Rico Telephone Authority under a Share Option Agreement dated as of March 2, 1999. Under this option agreement GTE Holdings and GTE International have the right, until March 2, 2002, to buy up to 150,000 shares of Telecomunicaciones de Puerto Rico from the Puerto Rico Telephone Authority at a price equal to \$1,148.40 per share, which represents 132% of the original purchase price paid by the GTE Group. The GTE Group's ownership interest in our company could also increase as a result of the exercise of specific rights of first refusal. See "--- Shareholders' Agreements -- Rights of First Refusal."

SHAREHOLDERS' AGREEMENT

On March 2, 1999, we, GTE International and our shareholders entered into an agreement that sets forth, among other things, specific agreements relating to the corporate governance of our company. On May 27, 1998, GTE Holdings, GTE International and Popular, Inc. entered into an agreement that sets forth, among other things, specific agreements relating to rights and obligations of GTE Holdings and Popular, Inc. with respect to their ownership interest in Telecomunicaciones de Puerto Rico, including the corporate governance thereof.

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CORPORATE GOVERNANCE

Our bylaws provide that directors are elected by a plurality vote of our shareholders. In this respect, our shareholders agreement:

- states that our board of directors will consist of 9 directors, so long as the Puerto Rico Telephone Authority and other specific entities of the Government of Puerto Rico (excluding the employee stock ownership plan) collectively own at least 4% of our issued and outstanding capital stock;
- entitles the Puerto Rico entities to nominate directors in proportion to their ownership of our capital stock, thus, they are entitled to nominate 3, 2 and/or 1 director(s), for so long as they collectively own at least 25%, 15% or 4% of our issued and outstanding capital stock;
- grants GTE Holdings the right to nominate 5 directors so long as it owns directly or indirectly more than 20% of our outstanding capital stock.

Under the Popular shareholders agreement, Popular, Inc. is entitled to nominate 1 of our 9 directors, so long as it owns at least 4% of our outstanding capital stock. GTE Holdings and Popular, Inc. also agreed to consult with each other with respect to any matters requiring a vote of the directors or our shareholders in order to reach a consensus. In the absence of a consensus,

Popular, Inc. would abstain from voting at any shareholder meeting and would advise the Director nominated by it to abstain from voting on any matters unless it votes in the same manner as the directors nominated by GTE Holdings except on certain extraordinary transactions.

Pursuant to our shareholders agreement, for so long as the Puerto Rico entities collectively own at least 10% of the outstanding capital stock of our company, we may not take any of the following actions without approval by the board and without unanimous approval by the government directors:

- any acquisition, strategic alliance or joint venture involving a dollar amount equal to, or in excess of, 15% of our total assets;
- the issuance of equity securities or securities exercisable or exchangeable for or convertible into equity securities;
- any amendment to the dividend policy established in our shareholders agreement;
- transactions between us and any of our subsidiaries, on the one hand, and any member of the GTE Group or any affiliate thereof on the other hand, involving an aggregate dollar amount in any fiscal year of more than \$1,000,000 as to each member and its affiliates; and
- any amendment to our Certificate of Incorporation or Bylaws adversely affecting the rights of the Puerto Rico entities as shareholders or the rights of the government directors.

In addition, for so long as the Puerto Rico entities collectively own at least 10% of our issued and outstanding capital stock, the following shareholder actions require approval by the Puerto Rico Telephone Authority:

- any amendment to our Certificate of Incorporation adversely affecting the rights of any governmental authority of Puerto Rico as a shareholder of our company or the rights of the government directors;
- the liquidation, merger, consolidation or split up of Telecomunicaciones de Puerto Rico (other than a merger in which Telecomunicaciones de Puerto Rico is the survivor or a merger of Telecomunicaciones de Puerto Rico into a wholly-owned subsidiary of Telecomunicaciones de Puerto Rico); and
- the sale of assets in any fiscal year representing 25% or more of our total assets.

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Under the Popular shareholders agreement, decisions of our board or our shareholders on the following matters, among others, require the consent of GTE Holdings and Popular, Inc.:

- the liquidation, dissolution, winding up, merger, consolidation, other combination or split up of our company or a material subsidiary or the acquisition of an entity involving an amount of more than 5% of our assets and our subsidiaries on a consolidated basis;
- the execution of agreements between us or our subsidiaries and any of our shareholders for more than \$1,000,000 in any fiscal year, except for agreements described in "Certain Relationships and Related Transactions;"
- issuing any debt, except for the exchange notes, or preferred stock financing or assumption of our liabilities or our subsidiaries to the extent that the transaction is in excess of \$25,000,000, if not contemplated in our business plan;

- offering or selling equity or equity-linked securities of our company or our subsidiaries;
- filing under any bankruptcy, insolvency, reorganization or similar law;
- any amendment to our Certificate of Incorporation or bylaws or any of our subsidiaries adversely affecting the rights of Popular, Inc.;
- any sale, transfer or other disposition of our assets or liabilities or any of our subsidiaries involving an amount of more than 5% of our assets and our subsidiaries on a consolidated basis; and
- any change in the dividend policy established in our shareholders agreement.

In connection with the acquisition, our shareholders agreed that our shares will bear a dividend, payable on a quarterly basis, to the extent funds are legally available therefor and subject to any restrictions imposed by any financing, that is at least equal to 50% of our consolidated net income. The indenture for the exchange notes and our credit facilities will not contain any restrictions on the payment of dividends.

SHARE TRANSFERS

Our shareholders agreement establishes some restrictions on the transfer of shares by our shareholders. Under our shareholders agreement, shares can be transferred by GTE Holdings without any restrictions after March 2, 2004 and by Popular, Inc. after March 2, 2002. GTE International agreed to maintain record and beneficial ownership, directly or indirectly, of at least a majority in vote and value of all equity or equity-linked securities of GTE Holdings unless otherwise consented to by Popular, Inc. GTE Holdings and Popular, Inc. are permitted to transfer shares to their wholly-owned subsidiaries at any time. After March 2, 2002, GTE Holdings may reduce its ownership interest to 35% through a widely distributed private placement or public offering, or if our stock is publicly traded, in open market transactions. GTE Holdings and its affiliates must maintain an ownership interest in our company of at least 35% until March 2, 2004. Popular, Inc. may sell up to 33.3% of its initial ownership interest prior to March 2, 2002 pursuant to "piggy-back" rights in the event of a registration of our shares under the Securities Act in connection with a public offering of our shares. Under the Popular shareholders agreement, transfers by GTE Holdings and Popular, Inc. to the Puerto Rico entities or the employee stock ownership plan are prohibited. The government of Puerto Rico may sell, subject to a right of first refusal in favor of the GTE Group, any or all of its shares at any time but excluding shares under an option agreement with the GTE Group and GTE International.

If any member of the GTE Group proposes to transfer shares as permitted by our shareholders agreement, other than to any of its affiliates or other than in a public offering or widely distributed private placement, which is for more than 7.5% of the total number of our shares or would result in the transferee owning over 20% of our shares, the Puerto Rico entities shall have the right to participate in this sale, by selling the applicable pro-rata portion of the aggregate number of shares then owned by all of the Puerto Rico entities. If the Puerto Rico entities would own 5% or less of our shares after exercising this right, GTE Holdings shall have the option of requiring that the Puerto Rico entities sell all of their remaining shares to the buyer, or requiring that the Puerto Rico entities sell to the buyer the shares that the buyer is willing to

purchase and sell any remaining shares owned by the Puerto Rico entities to GTE Holdings. Under the Popular shareholders agreement, Popular, Inc. has the right

to require GTE Holdings to permit Popular, Inc. to participate on a pro-rata basis in any transfer of shares by GTE Holdings, other than an underwritten public offering or widely distributed private placement.

In addition, GTE Holdings and GTE International entered into a tag-along agreement with the employee stock ownership plan. Pursuant to this tag-along agreement, through March 2, 2009, the employee stock ownership plan has the right to participate in any sale by GTE Holdings, GTE International or any of their affiliates of more than 7.5% of the total number of our outstanding shares or that would result in the transferee and its affiliates owning over 20% of our shares. If the employee stock ownership plan has the right to participate in the sale it can sell a pro rata portion of its shares equal to the lesser of 30,000 shares or the aggregate number of shares then owned by it to the buyer on the same terms and conditions that are given to GTE Holdings, GTE International or their affiliates.

RIGHTS OF FIRST REFUSAL

The Puerto Rico entities may transfer any or all of their shares, except for those shares whose transfer is restricted by the option agreement, at any time provided that GTE Group and GTE International shall have first refusal rights with respect to these shares unless they are being sold in a public offering or widely disseminated private placement. Under the Popular shareholders agreement, any party that wishes to transfer its shares other than pursuant to a public offering or a widely distributed private placement, must obtain a purchase offer from a third party and offer the shares to the other parties first for the same price and under the same conditions as the purchase offer by the third party.

REGISTRATION RIGHTS

At any time after August 2000, any of the Puerto Rico entities may request on three occasions the registration of shares of having an aggregate estimated disposition price of at least \$50 million. We agreed to use all commercially reasonable efforts to effect promptly the requested registration under the Securities Act. If at any time we determine to register any shares under the Securities Act in connection with the public offering of the shares by us solely for cash, each shareholder, other than the employee stock ownership plan, shall have the right to request that Telecomunicaciones de Puerto Rico use commercially reasonable efforts to cause to be registered under the Securities Act any shares that the shareholder requests to be registered.

NON-COMPETITION AGREEMENT

On March 2, 1999, Telecomunicaciones de Puerto Rico, GTE Corporation, GTE Holdings, GTE International, Popular, Inc., the Puerto Rico Telephone Authority and Government Development Bank entered into a non-competition agreement as a condition to closing the acquisition. This agreement establishes that the parties, other than Popular, Inc., shall not engage, directly or indirectly, in any manner, in:

- the development, acquisition, construction, management, ownership or operation of wireline or wireless telecommunication services; or
- data transmission or Internet-related systems and businesses, and all service businesses directly related thereto, including the application for the development and acquisition of licenses, permits and authorizations as are necessary and appropriate for any of the foregoing, and which systems and businesses are primarily for services in or from Puerto Rico for a certain time period and subject to certain exceptions. The parties, other than Popular, Inc., shall not engage in restricted activities until the earlier of:
 - the date when the Puerto Rico Telephone Authority and any other